

GENERAL MOTORS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effect of 363 Sale Transaction and Application of Fresh-Start Reporting

The following table summarizes the adjustments to Old GM's consolidated balance sheet as a result of the 363 Sale and the application of fresh-start reporting and presents our consolidated balance sheet at July 10, 2009 (dollars in millions):

	Predecessor July 9, 2009	Reorganization via 363 Sale Adjustments	Fresh-Start Reporting Adjustments	Successor after Reorganization via 363 Sale and Fresh- Start Reporting Adjustments July 10, 2009
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 19,054	\$ (41)	\$ —	\$ 19,013
Marketable securities	139	—	—	139
Total cash and marketable securities	19,193	(41)	—	19,152
Restricted cash and marketable securities	20,290	(1,175)	—	19,115
Accounts and notes receivable, net	8,396	3,859	(79)	12,176
Inventories	9,802	(140)	(66)	9,596
Equipment on operating leases, net	3,754	2	90	3,846
Other current assets and deferred income taxes	1,874	75	69	2,018
Total current assets	63,309	2,580	14	65,903
Non-Current Assets				
Restricted cash and marketable securities	1,401	(144)	—	1,257
Equity in net assets of nonconsolidated affiliates	1,972	4	3,822	5,798
Equipment on operating leases, net	23	—	3	26
Property, net	36,216	(137)	(17,579)	18,500
Goodwill	—	—	30,464	30,464
Intangible assets, net	210	—	15,864	16,074
Deferred income taxes	79	550	43	672
Prepaid pension	121	—	(24)	97
Other assets	1,244	(12)	1,946	3,178
Total non-current assets	41,266	261	34,539	76,066
Total Assets	\$ 104,575	\$ 2,841	\$ 34,553	\$ 141,969
LIABILITIES AND EQUITY (DEFICIT)				
Current Liabilities				
Accounts payable (principally trade)	\$ 13,067	\$ (42)	\$ 42	\$ 13,067
Short-term debt and current portion of long-term debt	43,412	(30,179)	(56)	13,177
Postretirement benefits other than pensions	187	1,645	124	1,956
Accrued expenses	25,607	(81)	(1,132)	24,394
Total current liabilities	82,273	(28,657)	(1,022)	52,594
Non-Current Liabilities				
Long-term debt	4,982	(977)	(1,488)	2,517
Postretirement benefits other than pensions	3,954	14,137	310	18,401
Pensions	15,434	14,432	2,113	31,979
Liabilities subject to compromise	92,611	(92,611)	—	—
Other liabilities and deferred income taxes	14,449	278	811	15,538
Total non-current liabilities	131,430	(64,741)	1,746	68,435
Total Liabilities	213,703	(93,398)	724	121,029
Preferred stock	—	1,741	—	1,741

Equity (Deficit)

Old GM

Preferred stock	—	—	—	—
Preference stock	—	—	—	—
Common stock	1,018	—	(1,018)	—
Capital surplus (principally additional paid-in capital)	16,494	—	(16,494)	—

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Common stock	—	4	—	4
Capital surplus (principally additional paid-in capital)	—	18,787	—	18,787
Retained earnings (Accumulated deficit)	(91,602)	63,492	28,110	—
Accumulated other comprehensive income (loss)	(35,370)	12,295	23,075	—
Total stockholders' equity (deficit)	(109,460)	94,578	33,673	18,791
Noncontrolling interests	332	(80)	156	408
Total equity (deficit)	(109,128)	94,498	33,829	19,199
Total Liabilities and Equity (Deficit)	\$ 104,575	\$ 2,841	\$ 34,553	\$ 141,969

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Reorganization Via 363 Sale Adjustments

The following table summarizes the reorganization adjustments previously discussed including the liabilities that were extinguished or reclassified from Liabilities subject to compromise as part of the 363 Sale (dollars in millions):

	UST(a)	Canada Holdings(b)	New VEBA(c)	Pension and OPEB(d)	MLC(e)	Other(f)	Total
Assets MLC retained, net	\$ —	\$ —	\$ —	\$ —	\$ 1,797	\$ —	\$ 1,797
Accounts payable (principally trade)	—	—	—	—	(42)	—	(42)
Short-term debt and current portion of long-term debt extinguished	(31,294)	(5,972)	—	—	(1,278)	—	(38,544)
Short-term debt and current portion of long-term debt assumed	7,073	1,292	—	—	—	—	8,365
Net reduction to short-term debt and current portion of long-term debt	(24,221)	(4,680)	—	—	(1,278)	—	(30,179)
Postretirement benefits other than pensions, current	—	—	1,409	236	—	—	1,645

Accrued expenses	(54)	—	—	219	(310)	64	(81)
Total current liabilities	(24,275)	(4,680)	1,409	455	(1,630)	64	(28,657)
Long-term debt extinguished	—	—	—	—	(977)	—	(977)
Postretirement benefits other than pensions, non-current	—	—	10,547	3,590	—	—	14,137
Pensions	—	—	—	14,432	—	—	14,432
Liabilities subject to compromise	(20,824)	—	(19,687)	(23,453)	(28,553)	(94)	(92,611)
Other liabilities and deferred income taxes	—	—	—	391	(184)	71	278
Total liabilities	(45,099)	(4,680)	(7,731)	(4,585)	(31,344)	41	(93,398)
Accumulated other comprehensive income balances relating to entities MLC retained	—	—	—	—	(21)	—	(21)
Additional EDC funding	—	(3,887)	—	—	—	—	(3,887)
Fair value of preferred stock issued	1,462	279	—	—	—	—	1,741
Fair value of common stock issued	12,076	2,324	—	—	1,986	—	16,386
Fair value of warrants	—	—	—	—	2,405	—	2,405
Release of valuation allowances and other tax adjustments	—	—	—	—	—	(751)	(751)
Reorganization gain	(31,561)	(5,964)	(7,731)	(4,585)	(25,177)	(710)	(75,728)
Amounts attributable to noncontrolling interests	—	—	—	—	(80)	—	(80)
Amounts recorded in Accumulated other comprehensive income as part of Reorganization via 363 Sale adjustments	—	—	7,731	4,585	—	—	12,316
Total retained earnings adjustment	<u>\$ (31,561)</u>	<u>\$ (5,964)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (25,257)</u>	<u>\$ (710)</u>	<u>\$ (63,492)</u>

(a) Liabilities owed to the UST under the UST Loan Agreement of \$20.6 billion, with accrued interest of \$251 million, and under the DIP Facility of \$30.9 billion with accrued interest of \$54 million and borrowings related to the warranty program of \$361 million were extinguished in connection with the 363 Sale through the assumption of the UST Loans of \$7.1 billion and the issuance of 304 million

shares of our common stock with a fair value of \$12.1 billion and 84 million shares of Series A Preferred Stock with a fair value of \$1.5 billion.

- (b) Liabilities owed to Canada Holdings under the EDC Loan Facility of \$2.6 billion and under the DIP Facility of \$3.4 billion were extinguished in connection with the 363 Sale through the assumption of the Canadian Loan of CAD \$1.5 billion (equivalent of \$1.3 billion when entered into) and the issuance of 58 million shares of our common stock with a fair value of \$2.3 billion and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 14. Product Warranty Liability

The following table summarizes activity for policy, product warranty, recall campaigns and certified used vehicle warranty liabilities (dollars in millions):

	Successor Six Months Ended June 30, 2010	Predecessor Six Months Ended June 30, 2009
Beginning balance	\$ 7,030	\$ 8,491
Warranties issued and assumed in period	1,534	1,077
Payments	(1,711)	(1,833)
Adjustments to pre-existing warranties	67	(138)
Effect of foreign currency translation	(160)	89
Liability adjustment, net due to the deconsolidation of Saab	—	(77)
Ending balance	\$ 6,760	\$ 7,609

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Guarantees

We have provided guarantees related to the residual value of certain operating leases. These guarantees terminate in years ranging from 2011 to 2035. Certain leases contain renewal options.

We have agreements with third parties that guarantee the fulfillment of certain suppliers' commitments and other related obligations. These guarantees expire in years ranging from 2010 to 2013, or are ongoing or upon the occurrence of specific events.

In some instances, certain assets of the party whose debt or performance we have guaranteed may offset, to some degree, the cost of the guarantee. The offset of certain of our payables to guaranteed parties may also offset certain guarantees, if triggered.

We also provide payment guarantees on commercial loans made by Ally Financial and outstanding with certain third parties, such as dealers or rental car companies. These guarantees either expire in years ranging from 2010 to 2029 or are ongoing. We determined the value ascribed to the guarantees to be insignificant based on the credit worthiness of the third parties. Refer to Note 23 for additional information on guarantees that we provide to Ally Financial.

In connection with certain divestitures, we have provided guarantees with respect to benefits to be paid to former employees relating to pensions, postretirement health care and life insurance. Aside from indemnifications and guarantees related to Delphi, as subsequently discussed, it is not possible to estimate our maximum exposure under these indemnifications or guarantees due to the conditional nature of these obligations. No amounts have been recorded for such obligations as they are not probable or estimable at this time.

In addition to the guarantees and indemnifying agreements mentioned previously, we periodically enter into agreements that incorporate indemnification provisions in the normal course of business. Due to the nature of these agreements, the maximum potential amount of future undiscounted payments to which we may be exposed cannot be estimated. No amounts have been recorded for such indemnities as our obligations under them are not probable or estimable at this time.

In addition to the guarantees and indemnifying agreements previously discussed, we indemnify dealers for certain product liability related claims as subsequently discussed.

With respect to other product-related claims involving products manufactured by certain joint ventures, we believe that costs incurred are adequately covered by recorded accruals. These guarantees expire in 2022.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The final outcome of environmental matters cannot be predicted with certainty at this time. Accordingly, it is possible that the resolution of one or more environmental matters could exceed the amounts accrued in an amount that could be material to our financial condition and results of operations. At June 30, 2010 we estimate that remediation losses could range from \$140 million to \$375 million.

Product Liability

With respect to product liability claims involving our and Old GM's products, it is believed that any judgment against us for actual damages will be adequately covered by our recorded accruals and, where applicable, excess insurance coverage. Although punitive damages are claimed in some of these lawsuits, and such claims are inherently unpredictable, accruals incorporate historic experience with these types of claims. Liabilities have been recorded for the expected cost of all known product liability claims plus an estimate of the expected cost for all product liability claims that have already been incurred and are expected to be filed in the future for which we are self-insured. These amounts were recorded within Accrued expenses and Other liabilities and deferred income taxes and exclude Old GM's asbestos claims, which are discussed separately.

In accordance with our assumption of dealer sales and service agreements, we indemnify dealers for certain product liability related claims. Our experience related to dealer indemnification obligations where we are not a party arising from incidents prior to July 10, 2009 is limited. We monitor actual claims experience for consistency with this estimate and make periodic adjustments as appropriate. Since July 10, 2009, the volume of product liability claims against us has been less than projected. In addition, as of this time due to the relatively short period for which we have been directly responsible for such claims, we have fewer pending matters than Old GM had in the past and than we expect in the future. Based on both management judgments concerning the projected number and value of both dealer indemnification obligations and product liability claims against us, we have estimated the associated liability. We have lowered our overall product liability estimate for dealer indemnifications and our exposure in the six months ended June 30, 2010 resulting in a \$132 million favorable adjustment driven primarily by a lower than expected volume of claims. We expect our product liability reserve to rise in future periods as new claims arise from incidents subsequent to July 9, 2009.

Liability Related to Contingently Issuable Shares

We are obligated to issue additional shares of our common stock to MLC (Adjustment Shares) in the event that allowed general unsecured claims against MLC, as estimated by the Bankruptcy Court, exceed \$35.0 billion. The maximum Adjustment Shares equate to 2% (or 10 million shares) of our common stock. The number of Adjustment Shares to be issued is calculated based on the extent to which estimated general unsecured claims exceed \$35.0 billion with the maximum number of Adjustment Shares issued if estimated general unsecured claims total \$42.0 billion or more. We determined that it is probable that general unsecured claims allowed against MLC will ultimately exceed \$35.0 billion by at least \$2.0 billion. In the circumstance where estimated general unsecured claims equal \$37.0 billion, under the terms of the Purchase Agreement, we would be required to issue 2.9 million Adjustment Shares to MLC.

Other Litigation-Related Liability

* Various legal actions, governmental investigations, claims and proceedings are pending against us or MLC including a number of shareholder class actions, bondholder class actions and class actions under the Employee Retirement Income Security Act of 1974, as amended, and other matters arising out of alleged product defects, including asbestos-related claims; employment-related matters; governmental regulations relating to safety, emissions, and fuel economy; product warranties; financial services matters; dealer, supplier and other contractual relationships; tax-related matters not recorded pursuant to ASC 740-10 and environmental matters.

With regard to the litigation matters discussed in the previous paragraph, reserves have been established for matters in which it is believed that losses are probable and can be reasonably estimated, the majority of which are associated with tax-related matters not recorded pursuant to ASC 740-10 as well as various non-U.S. labor-related matters. Tax related matters not recorded pursuant to ASC 740-10 are items being litigated globally pertaining to value added taxes, customs, duties, sales, property taxes and other non-income tax related tax exposures. The various non-U.S. labor-related matters include claims from current and former employees related to

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* alleged unpaid wage, benefit, severance, and other compensation matters. Certain South American administrative and legal proceedings are tax-related and may require that we deposit funds in escrow, such escrow deposits may range from \$725 million to \$900 million. Some of the matters may involve compensatory, punitive, or other treble damage claims, environmental remediation programs, or sanctions, that if granted, could require us to pay damages or make other expenditures in amounts that could not be reasonably estimated at June 30, 2010. We believe that appropriate accruals have been established for such matters based on information currently available. Reserves for litigation losses are recorded in Accrued expenses and Other liabilities and deferred income taxes. These accrued reserves represent the best estimate of amounts believed to be our and Old GM's liability in a range of expected losses. Litigation is inherently unpredictable, however, and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such proceedings could exceed the amounts accrued in an amount that could be material to our or Old GM's financial condition, results of operations and cash flows in any particular reporting period.